



DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

OFFICE OF
CHIEF COUNSEL

July 17, 2002

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CC:CORP:2
POSTF-150620-01

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INTERNAL REVENUE SERVICE NATIONAL OFFICE LEGAL ADVICE

MEMORANDUM FOR CC:LM:FS:LI

FROM: ASSOCIATE CHIEF COUNSEL (CORP)
CC:CORP:2

SUBJECT: Application of Step Transaction Doctrine to Lease Strip

This Chief Counsel Advice responds to your memorandum dated April 25, 2002, and supplements the Chief Counsel Advice issued to you on June 27, 2002, which responded to your memorandum dated February 4, 2002. The prior Chief Counsel Advice is hereby incorporated by reference. In accordance with I.R.C. § 6110(k)(3), this Chief Counsel Advice should not be cited as precedent.

LEGEND

Taxpayer	=
Subsidiary	=
Partnership	=
Year 1	=

ISSUE

Whether the Step Transaction Doctrine may be applied to the lease stripping transaction at issue?

DISCUSSION

We have reviewed your memorandum dated April 25, 2002, regarding application of the step transaction doctrine to Taxpayer's lease stripping transaction. We agree that this argument is viable, and that application of the step transaction doctrine would bring income into Year 1.

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We would point out one error in your submission. Sentence 3 of the final paragraph on page 4 should read as follows: “. . . Partnership takes a cost basis in the Subsidiary preferred stock.”

This writing may contain privileged information. Any unauthorized disclosure of this writing may have an adverse effect on privileges, such as the attorney client privilege. If disclosure becomes necessary, please contact this office for our views.

Please call if you have any further questions.

ASSOCIATE CHIEF COUNSEL (CORPORATE)

By: _____
Chief, Branch 2